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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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FOR RELEASE ON DELIVERY
EXPECTED AT
9:00 A.M. EDT
THURSDAY, APRIL 17, 1975

STATEMENT OF
ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON REVENUE SHARING
COMMITTEE ON FINANCE
UNITED STATES SENATE
ON
THE GENERAL REVENUE SHARING PROGRAM

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WE ARE PLEASED TO APPEAR BEFORE THE SUBCOMMITTEE THIS MORNING TO DISCUSS OUR REVIEWS AND STUDIES OF THE GENERAL REVENUE SHARING PROGRAM.

THE GENERAL ACCOUNTING OFFICE IS RESPONSIBLE FOR REVIEWING THE ACTIVITIES OF THE DEPARTMENT OF THE TREASURY AND OF STATE AND LOCAL GOVERNMENTS THAT RECEIVE REVENUE SHARING FUNDS. OUR GOAL HAS BEEN TO IDENTIFY AND EXAMINE THE MORE IMPORTANT ISSUES SURROUNDING THE PROGRAM. WE HAVE TRIED TO SCHEDULE OUR WORK SO THAT ALL RESULTS OF OUR EFFORTS WILL BE AVAILABLE TO THE CONGRESS THIS YEAR, AS IT CONSIDERS RENEWAL OF REVENUE SHARING.

I WILL ATTEMPT TO HIGHLIGHT THE RESULTS OF OUR COMPLETED REVIEWS AND DESCRIBE THE EFFORTS WE HAVE UNDERWAY. STAFF MEMBERS RESPONSIBLE FOR THE DAY-TO-DAY DIRECTION OF OUR REVENUE SHARING EFFORTS ARE WITH ME, SO WE SHOULD BE ABLE TO RESPOND TO ANY QUESTIONS THE SUBCOMMITTEE MIGHT HAVE.

WE HAVE ISSUED TWO REPORTS TO THE CONGRESS ON THE OPERATION OF REVENUE SHARING AT THE STATE AND LOCAL GOVERNMENT LEVEL. OUR FIRST REPORT, ISSUED IN AUGUST 1973, COVERED 50 STATE GOVERNMENTS AND THE DISTRICT OF COLUMBIA. THE SECOND, ISSUED IN APRIL 1974, COVERED 250 SELECTED LOCAL GOVERNMENTS. DURING OUR VISITS TO THE STATES AND LOCALITIES, WE REVIEWED PROGRAMS AND ACTIVITIES WHICH WERE DESIGNATED AS BEING FINANCED WITH REVENUE SHARING; AND INQUIRED INTO SUCH QUESTIONS AS THE EFFECT OF REVENUE SHARING ON STATE-LOCAL TAXES, LEVELS OF SERVICES, CITIZEN PARTICIPATION IN THE BUDGETARY PROCESS, AND INTERGOVERNMENTAL COOPERATION.

AND THROUGH ITS ACCOUNTING RECORDS CAN DOCUMENT THAT A SPECIFIED AMOUNT OF REVENUE SHARING RECEIVED WAS EXPENDED AS DESIGNATED. HOWEVER, SUCH BUDGET AND ACCOUNTING DESIGNATIONS MAY NOT IN ANY WAY REFLECT THE ACTUAL IMPACT OF THE FUNDS ON THE GOVERNMENT.

A STATE GOVERNMENT CAN USE THE FUNDS FOR ANY PURPOSE AND LOCAL GOVERNMENTS CAN USE THE FUNDS FOR ESSENTIALLY ALL OF THEIR ACTIVITIES. THIS CREATES A SITUATION WHERE FUNDS ARE EASILY DISPLACED OR SUBSTITUTED. FOR EXAMPLE, IN ITS ACCOUNTING RECORDS A CITY MIGHT DESIGNATE ITS REVENUE SHARING FUNDS AS HAVING BEEN USED TO PAY THE SALARIES OF SANITATION WORKERS. HOWEVER, THE NET EFFECT FROM THIS DESIGNATION COULD WELL BE THAT THE CITY WAS ABLE TO USE ITS OWN FUNDS, WHICH OTHERWISE WOULD HAVE BEEN USED TO PAY THE SALARIES, FOR SOME OTHER PURPOSE SUCH AS THE ACQUISITION OF ROAD MAINTENANCE EQUIPMENT.

THUS, THERE ARE A VARIETY OF FISCAL CONSEQUENCES WHICH CAN RESULT FROM THE APPLICATION OF REVENUE SHARING FUNDS WHICH ARE NOT NECESSARILY REFLECTED BY THE DESIGNATED USES OF THE FUNDS. THE FUNDS MIGHT ACTUALLY PERMIT A RECIPIENT GOVERNMENT TO DO SUCH THINGS AS: (1) INCREASE ITS SPENDING LEVELS IN PROGRAMS OTHER THAN THOSE IN WHICH REVENUE SHARING FUNDS WERE DESIGNATED FOR USE, (2) REDUCE TAXES, (3) AVOID RAISING TAXES, (4) AVOID INCREASING DEBT, OR (5) INCREASE ITS SURPLUS.

- A RECIPIENT MUST NOT DISCRIMINATE BECAUSE OF RACE, COLOR, SEX, OR NATIONAL ORIGIN IN EMPLOYMENT OR PROVISION OF SERVICES FINANCED IN WHOLE OR IN PART WITH REVENUE SHARING;
- LABORERS AND MECHANICS EMPLOYED BY CONTRACTORS AND SUBCONTRACTORS TO WORK ON A CONSTRUCTION PROJECT WHERE 25 PERCENT OR MORE OF THE PROJECT COSTS ARE PAID WITH REVENUE SHARING MUST NOT BE PAID LESS THAN PREVAILING WAGE RATES AS DETERMINED BY THE SECRETARY OF LABOR UNDER THE DAVIS-BACON ACT; AND
- IF THE WAGES OF EMPLOYEES OF A RECIPIENT GOVERNMENT ARE PAID WITH REVENUE SHARING, THEY MAY NOT BE LOWER THAN THE PREVAILING RATES OF PAY FOR OTHER EMPLOYEES IN A SIMILAR OCCUPATIONAL CATEGORY IF 25 PERCENT OR MORE OF THE WAGES OF ALL EMPLOYEES IN THAT OCCUPATIONAL CATEGORY ARE PAID WITH REVENUE SHARING.

IN OUR APRIL 1974 REPORT TO THE CONGRESS, WE OBSERVED THAT WHEN REVENUE SHARING FUNDS ARE SPENT FOR ACTIVITIES THAT WOULD HAVE BEEN FINANCED FROM THE RECIPIENT'S OWN RESOURCES, CONSIDERABLE LATITUDE EXISTS FOR THE USE OF THE RECIPIENT'S FUNDS THAT ARE SO FREED. EXCEPT FOR A RESTRICTION, IN CERTAIN SITUATIONS, ON THE USE OF REVENUE SHARING TO MEET THE MATCHING REQUIREMENTS UNDER OTHER FEDERAL PROGRAMS, THE ACT DOES NOT RESTRICT THE USE OF RECIPIENT FUNDS FREED BY REVENUE SHARING.

BE ELIMINATED. ON THE OTHER HAND, WE BELIEVE THAT ONE OF THE MORE IMPORTANT CONDITIONS WHICH SHOULD BE ATTACHED TO A GENERAL FISCAL ASSISTANCE PROGRAM IS A STRONG AND BROAD BASED REQUIREMENT TO ASSURE PROTECTION OF CIVIL RIGHTS. RECOGNIZING THE EASE WITH WHICH REQUIREMENTS ON THE DIRECT USES OF REVENUE SHARING FUNDS CAN BE AVOIDED, IT WOULD SEEM APPROPRIATE FOR THE CONGRESS TO REQUIRE THAT A GOVERNMENT RECEIVING REVENUE SHARING COULD NOT DISCRIMINATE IN ANY OF ITS PROGRAMS OR ACTIVITIES REGARDLESS OF THE SOURCE OF FUNDING, AND THAT REVENUE SHARING FUNDS COULD BE WITHHELD PENDING ACCEPTABLE ACTIONS TO CORRECT DISCRIMINATORY PRACTICES.

ANOTHER QUESTION OF UTMOST IMPORTANCE IS HOW TO BRING A SUFFICIENT DEGREE OF ACCOUNTABILITY INTO THE PROGRAM. THE ACT NOW REQUIRES STATE AND LOCAL GOVERNMENTS TO PUBLISH IN A NEWSPAPER OF GENERAL CIRCULATION ITS PLANS FOR, AND ACTUAL USES OF, REVENUE SHARING. THIS REQUIREMENT WAS INTENDED TO ASSIST THE CITIZENS OF RECIPIENT GOVERNMENTS TO HOLD OFFICIALS OF THEIR GOVERNMENTS ACCOUNTABLE FOR THE USE OF THE FUNDS.

WE RECENTLY COMPLETED AN EVALUATION OF THIS REPORTING SYSTEM. THE REVIEW WAS CONDUCTED IN 21 STATE AND LOCAL GOVERNMENTS LOCATED THROUGHOUT THE COUNTRY. WE CONCLUDED, AS HAVE OTHERS, THAT BECAUSE OF THE DIFFICULTIES IN ISOLATING WHAT IS ACTUALLY BEING ACCOMPLISHED WITH REVENUE SHARING, THE USE REPORTS DO NOT PROVIDE MEANINGFUL INFORMATION AND, IN FACT, CAN BE MISLEADING.

AS COULD BE EXPECTED IN CONSIDERING SUCH AN ISSUE, A WIDE VARIETY OF VIEWPOINTS WERE EXPRESSED IN THE PAPERS AND BY CONFERENCE PARTICIPANTS. THERE WAS DISAGREEMENT ON A DEFINITION OF "LOCAL GOVERNMENT MODERNIZATION", BUT THERE WAS AGREEMENT THAT FEDERAL EFFORTS TO COMPEL STRUCTURAL MODERNIZATION ARE UNLIKELY TO SUCCEED. ALTHOUGH DIFFICULTIES AND DANGERS ACCOMPANY ANY FEDERAL EFFORT TO INDUCE MODERNIZATION, PARTICIPANTS FELT THAT THE PERSISTENT AND GROWING PROBLEMS OF METROPOLITAN GOVERNMENT ARGUED FOR SUCH AN ATTEMPT. PARTICIPANTS OBJECTED, HOWEVER, TO USING REVENUE SHARING AS THE SOLE OR EVEN PRIMARY VEHICLE TO ENCOURAGE SUCH MODERNIZATION. THEY ALSO STRESSED THAT ANY FEDERAL UNDERTAKING SHOULD BE MARKED BY FLEXIBILITY; MODESTY OF OBJECTIVES; FULL AWARENESS THAT EFFORTS TO ACHIEVE STRUCTURAL CHANGE ARE QUESTIONABLE; AND RECOGNITION THAT REVENUE SHARING WOULD REMAIN BUT ONE COMPONENT OF A SYSTEM OF FEDERAL GRANTS, INDUCEMENTS, AND STRATEGIES.

ANOTHER REVIEW WE HAVE UNDERWAY IS SOMEWHAT RELATED TO THE MODERNIZATION ISSUE. SEVERAL OBSERVERS HAVE EXPRESSED CONCERN ABOUT THE DISTRIBUTION OF REVENUE SHARING FUNDS TO SO CALLED "MARGINAL" UNITS OF GENERAL PURPOSE GOVERNMENT, PARTICULARLY TOWNSHIPS IN THE MIDWESTERN STATES AND NEW ENGLAND COUNTIES. THESE GOVERNMENTS ARE OFTEN CHARACTERIZED AS HAVING VERY LIMITED FUNCTIONS AND AS TENDING TO BE OBSOLETE, DUPLICATIVE, AND NEARLY DEFUNCT. CONCERN HAS BEEN EXPRESSED THAT BY DISTRIBUTING REVENUE SHARING TO SUCH UNITS THE FEDERAL GOVERNMENT MAY BE UNJUSTIFIABLY "PROPPING THEM UP".

SECOND, IN DECEMBER, 1974, THE CHAIRMAN, HOUSE COMMITTEE ON THE JUDICIARY, REQUESTED US TO REVIEW THE MANNER IN WHICH THE OFFICE OF REVENUE SHARING HAS DISCHARGED THE CIVIL RIGHTS ENFORCEMENT RESPONSIBILITIES ASSIGNED TO IT UNDER THE REVENUE SHARING ACT. WE WILL REPORT THE RESULTS OF OUR REVIEW TO THE COMMITTEE'S SUBCOMMITTEE ON CIVIL RIGHTS AND CONSTITUTIONAL RIGHTS.

IN ADDITION TO THESE EFFORTS, WE ARE ALSO REVIEWING SEVERAL OTHER ASPECTS OF THE PROGRAM ON OUR OWN INITIATIVE. THESE REVIEWS INCLUDE:

- AN EXAMINATION OF THE STATISTICAL DATA, PARTICULARLY THE TAX DATA, USED TO DETERMINE THE AMOUNT OF FUNDS ALLOCATED TO GOVERNMENTAL UNITS. THERE IS CONCERN THAT THE TAX DATA PRESENTLY USED MAY NOT ADEQUATELY REFLECT FISCAL EFFORT.
- AN ASSESSMENT OF THE AUDIT COVERAGE THE OFFICE OF REVENUE SHARING IS OBTAINING FROM STATE AND LOCAL AUDIT AGENCIES AS WELL AS INDEPENDENT PUBLIC ACCOUNTANTS UNDER ITS COMPLIANCE AUDIT PROGRAM. THIS EVALUATION IS BEING CONDUCTED IN FOUR STATES-- CALIFORNIA, GEORGIA, MINNESOTA, AND NEW YORK.
- A REVIEW OF THE USES AND IMPACT OF REVENUE SHARING ON SELECTED INDIAN TRIBES AND ALASKAN NATIVE VILLAGES.

MR. CHAIRMAN, THAT CONCLUDES MY PREPARED STATEMENT ON GAO'S REVENUE SHARING EFFORTS. MY ASSOCIATES AND I WILL BE HAPPY TO RESPOND TO ANY QUESTIONS.